

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY
Jefferson County, Washington
January 1, 1990 Through December 31, 1992

Schedule Of Findings

1. The District Should Recover The Cost Of Services Provided To Eagle Eye, Inc.

Since March of 1992, the district has been providing water without charge to Woodland Hills, a residential housing development of Eagle Eye, Inc., a company affiliated with Seton Construction. The district has also performed routine maintenance on the Woodland Hills water system without charge.

The *Constitution of the State of Washington*, Article VIII, Section 7 states in part:

No county, city, town or other municipal corporation shall hereafter give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm

The district manager, Bob Leach, was aware of these improprieties and allowed them to continue.

RCW 42.20.010 (3) states:

Every public officer who shall . . . employ or use any person, money, or property under his official control or direction, or in his official custody, for the private benefit or gain of himself or another; shall be guilty of a gross misdemeanor

By allowing these improprieties to continue, taxpayers within the district and the district's regular paying customers have subsidized the cost of providing these free services.

We recommend the district:

- a. Bill and collect from Eagle Eye, Inc., for water and services provided to Woodland Hills.
- b. Discontinue providing free services.

We further recommend the Jefferson County Prosecuting Attorney review these matters and take whatever action is deemed necessary under the circumstances.

2. The District Should Recover The Cost Of Meters And Services Provided To Bruce Seton

One Hawkeye Park is a mobile home park owned by Bruce Seton and is connected to the district's Glen Cove water system. In May of 1991, the mobile home park had 11 mobile home units connected to the district's system. By November of 1991, the mobile home park had a total of 13 units connected to the district's system. All 13 units were billed at a flat rate of \$9 a month.

In May of 1992, the district discovered that in addition to the 13 units being billed, another 24 mobile homes were illegally connected to the PUD's waterline. The district did not know when these units were connected, but began charging them in April of 1992. The district made no attempt to establish when these additional units were connected and recover lost revenues.

In January of 1992, the district began metering the units at One Hawkeye Park, the district installed 20 water meters free of charge. In February and March of 1993, the PUD installed another 18 meters and charged Bruce Seton \$52 per meter instead of the established \$150 per meter charge. However, Bruce Seton never paid for these 18 meters. The last 5 meters were being installed at the time of our audit and charges for setting these meters were not billed.

In October of 1992, a district wide water rate increase went into effect. However, the district continued to bill One Hawkeye Park at the old rate of \$9 a month until January 1993. Additionally, all the metered units were billed at the monthly flat rate until March of 1993. The district made no attempt to correct the billings and recover any amounts due.

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By allowing these improprieties to continue, taxpayers within the district and the district's regular paying customers have subsidized the cost of providing these meters and services to Bruce Seton.

We recommend the district:

- a. Recover the \$6,450 from Bruce Seton for the meters installed but not paid for. The district should also recover any additional costs it incurred installing these meters.
- b. Bill and collect from Bruce Seton for all water and services provided to One Hawkeye Park.

c. Discontinue providing free services.

We further recommend the Jefferson County Prosecuting Attorney review these matters and take whatever action is deemed necessary under the circumstances.

3. The District Should Comply With Its Revenue Bond Covenants

The district improperly transferred pledged bond fund proceeds to their General Fund. The district transferred \$212,478 from the Revenue Bond Fund of 1981, which included pledged Local Utility District (LUD) No. 1 assessments. These transfers were made from February 1991 to February 1993, and were used to finance district operations, construction projects, and water studies.

In 1981, the district formed LUD No. 1 and financed the project with Water Revenue Bonds of 1981. The assessments of LUD No. 1 were pledged for securing payment of the 1981 bonds. The bonds were purchased by the U.S. Department of Agriculture, Farmers Home Administration (FmHA) and in March of 1989, the district paid the 1981 bonds off early and received a discount offered by the FmHA. LUD No. 1 assessments were still outstanding when the bonds were paid off.

In 1989, the district formed LUD No. 3 and financed the project with Water Revenue Bonds of 1989. The assessments of LUD No. 3 and the remaining outstanding assessments of LUD No. 1 were pledged for securing payment of the 1989 bonds. The bonds were purchased by the U.S. Department of Agriculture, FmHA. These bonds are still outstanding.

Since the 1989 bonds were purchased by the U.S. Department of Agriculture FmHA, under the FmHA Water Systems Loan Program to rural communities, we have included the \$212,478 in the Schedule of Questioned Costs in this report.

District Bond Resolution 89-291 states in part that:

So long as the [1989] Bonds are outstanding against the Bond Fund, the District shall set aside and pay into the Bond Fund all LUD Assessments

District Bond Resolution 89-291 also states:

"LUD assessments" means all assessments levied (including principal installments thereof and interest and any penalties thereon) in LUD No. 1. (except to the extent that the 1989 Refunding Bond Fund contains LUD assessments from LUD No. 1), LUD No 3. and any LUD which may be created pursuant to State law

The improper transfers of \$212,478 appear to have resulted from district management's lack of understanding of the bond covenant requirements established with the sale of the 1989 bonds. As a result, the district is not in compliance with its bond covenants, and the bondholder (FmHA) is not protected to the extent promised when the bonds were sold. Also, the failure to comply with the bond covenants may impair the district's ability to sell future bond issues.

We recommend that the \$212,478 be returned to the 1989 Bond Fund.

We further recommend that the district resolve the questioned costs with the Farmers Home Administration.

4. The District Should Collect On Past Due Accounts For Water Service

The district is not enforcing its policies on past due utility accounts. During our audit, we noted 17 accounts that had not paid for at least six months that were still receiving water service. The balance of these accounts at May 31, 1993, was \$3,785.71.

District Resolution 172 states:

All charges and penalties shall be due and payable with ten (10) days after the respective due dates fixed by the District, and if the same are not paid within ten (10) days the service may be shut off without notice.

Additionally, six of the above accounts, with a balance of \$1,251.52 were covered by District Bond Resolution 89-291.

District Bond Resolution 89-291, Section 10, Bond Covenant (F) states:

It [the district] will not furnish water or other utility service of the system to any customers whatsoever free of charge, and it shall, not later than sixty days after the charges for that service are delinquent, take such legal action as may be feasible to enforce collection of all those delinquent charges [Emphasis ours.]

Failure to enforce district collection policies resulted in loss of income. Furthermore, the district's paying customers bear the burden of these customers that continue to receive service without paying.

District employees believed it was illegal to shut off water services. However, district management could not offer any explanations why legal actions were not taken to enforce collection.

We recommend that the district enforce collection of delinquent accounts according to its resolutions.